

Message Text

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ACTION EB-08

INFO OCT-01 EA-12 ISO-00 AGRE-00 STR-07 STRE-00
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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7679

UNCLAS SECTION 01 OF 02 TOKYO 08107

PASS AGRICULTURE AND STR ELECTRONICALLY

E.O. 11652:NA

TAGS: EAGR, JA

SUBJECT: CHANGES IN BEEF SYSTEM DISCUSSED

REF: (A) OSAKA KOBE 441, (B) TOKYO 7511

1. SUMMARY. GROUP OF TOKYO ECONOMISTS HAS RECOMMENDED LIBERALIZATION OF BEEF IMPORT QUOTAS AND SHIFT TO DEFICIENCY PAYMENT SYSTEM. MAF HAS REJECTED PROPOSAL AS TOO EXPENSIVE AND IMPOSSIBLE TO ADMINISTER AND APPEARS TO BE HOLDING OUT FOR NO CHANGE AT ALL. OTHERS IN GOJ ARE WILLING TO STUDY THIS PROPOSAL AND OTHER OPTIONS. OUTCOME OF THIS POLICY DISCUSSION MAY DEPEND ON EXTENT TO WHICH BEEF EXPORTING COUNTRIES KEEP UP PROPERLY CALIBRATED PRESSURE FOR PROGRESS TOWARD LIBERALIZATION. END SUMMARY.

2. ON APRIL 19 A GROUP OF UNIVERSITY ECONOMISTS CALLED THE POLICY PLANNING FORUM MADE THEIR CONTRIBUTION TO THE BEEF POLICY DEBATE. THEY RECOMMENDED LIBERALIZATION OF IMPORTS, RETENTION OF CURRENT TARIFF AND SURCHARGE, WITH INCOME THEREFROM USED TO FINANCE DEFICIENCY PAYMENTS FOR JAPANESE BEEF PRODUCERS. TARIFF AND SURCHARGE WOULD BE LOWERED IN STAGES TO PERMIT INCREASED IMPORTS AND PRESUMABLY TO
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ENCOURAGE MORE EFFICIENT DOMESTIC PRODUCTION. THEY ESTIMATE CONSUMPTION OF BEEF WOULD INCREASE IN 5 TO 7 YEARS FROM 320,000 MT TO 700,000 MT AND BEEF PRICES WOULD DECLINE 50 PCT. PROGRAM WOULD REQUIRE 250 BILLION YEN A YEAR AND BENEFITS TO CONSUMERS WOULD EXCEED 500 BILLION YEN. THE ENTIRE 250 BILLION YEN COULD BE MET FROM TARIFF AND SUR-

CHARGE INCOME,BUT LIVESTOCK INDUSTRY IMPROVEMENT PROGRAMS WOULD HAVE TO BE FINANCED FROM GENERAL REVENUE. THE FORUM IS CHAIRED BY PROF. YASUSUKE MURAKAMI OF TOKYO UNIVERSITY. THE FORUM'S PROPOSAL WAS MAINLY WORKED OUT BY PROF. YUJIRO HAYAMI OF TOKYO METROPOLITAN UNIVERSITY.

3. MAF HAS DISMISSED THE FORUM PROPOSAL AS UNREALISTIC AND AN OVER SIMPLIFICATION, AND MAF REPORTEDLY HAS NO INTENTION OF STUDYING IT. ACCORDING TO MAF, A DEFICIENCY PAYMENT SYSTEM WOULD BE TOO EXPENSIVE AND TOO DIFFICULT TO ADMINISTER. MAF ALSO CHALLENGED THE FORUM'S PRICE CALCULATIONS AND ITS USE OF A PRICE ELASTICITY OF DEMAND OF 1.5. MAF OFFICIALS NOTED THAT STUDY DONE FOR THE LIVESTOCK INDUSTRY PROMOTION CORPORATION (LIPC) LAST YEAR SHOWED PRICE ELASTICITY OF DEMAND FOR BEEF TO BE 0.4 (SIC). THEY DID ADMIT, HOWEVER, THAT IT WOULD BE DIFFICULT TO PREDICT THE OUTCOME OF SUCH A "SPECIAL CONDITION" AS A 50 PCT DECREASE IN PRICES, BUT ONLY AS A CRITICISM OF THE FORUM, NOT AS A POINT WHICH MIGHT CAST DOUBT ON THEIR CONCLUSION THAT DEMAND FOR BEEF IS INELASTIC. EMBASSY COMMENT: CONTENTION THAT DEMAND FOR BEEF IN JAPAN MIGHT BE INELASTIC IN A RANGE OF REASONABLE PRICES IS PATENTLY ABSURD. THE FRENZIED BUYING AT THE RECENT OSAKA FOOD SHOW (REF A) AT PRICES ABOUT ONE-HALF THE GOING PRICE DOESN'T PROVE THE CASE THE OTHER WAY BUT IS TYPICAL OF SIGNALS WE RECEIVE ABOUT JAPANESE CONSUMER'S DESIRE FOR BEEF. END COMMENT. UNCLASSIFIED

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MAF ALSO EXPRESSED CONCERN ABOUT EFFECT LARGE INCREASE IN BEEF CONSUMPTION WOULD HAVE ON PORK AND POULTRY PRICES AND CONSUMPTION.

4. MANY OPTIONS FOR MODIFYING THE BEEF SYSTEM ARE BEING DISCUSSED IN GOVT. CIRCLES. SOME HAVE SUGGESTED ANNOUNCING FULL QUOTA ONCE A YEAR AND BUILDING IN A GROWTH FACTOR. OTHERS ARE TALKING ABOUT SETTLEMENT IN THE MTN WITH RELAXATION OF CONTROLS ON AGRICULTURAL IMPORTS PHASED IN OVER 8 YEARS FROM 1980. THE APRIL 21 MINISTERIAL CONFERENCE ON ECONOMIC MEASURES INCLUDED COMMITMENT TO PROGRAMS TO REDUCE INTERNAL BEEF PRICES (REF B) AND THE PRIME MINISTER REPORTEDLY PRESSED MINAG NAKAGAWA ON THIS POINT IN AN APRIL 28 CABINET MEETING. IN AN UPPER HOUSE COMMITTEE MEETING ON APRIL 27, EPA DIRECTOR GENERAL MIYAZAWA SAID THE FORUM PROPOSALS WERE WORTH STUDYING. (THIS WAS A CONSIDERABLE CHANGE OF POSITION FOR HIM SINCE APRIL 11, WHEN HE WAS SAYING THAT CURRENT GOJ EFFORTS TO PASS ON BENEFITS OF YEN APPRECIATION TO CONSUMERS SHOULD NOT INCLUDE AGRICULTURAL PRODUCTS.) KOICHI KATO, LDP LOWER HOUSE MEMBER FROM YAMAGATA, A MEMBER OF AGRICULTURE, FORESTRY AND FISHERIES COMMITTEE, IS RESEARCHING DEFICIENCY PAYMENTS AND IS

CONSIDERING INTRODUCING LEGISLATION.

5. COMMENT: GENERAL OPENING UP OF DISCUSSION OF BEEF POLICY OPTIONS IS CERTAINLY A STEP FORWARD ESPECIALLY IN JAPANESE CONTEXT WHERE BROAD CONSENSUS MUST EMERGE BEFORE POLICIES CHANGE. GOJ SEEMS TO BE MOVING TOWARD CONSENSUS THAT SOMETHING MUST BE DONE, WITH MAF THE ONLY HOLDOUT. JUST WHAT MAY FINALLY BE DONE WILL DEPEND IN PART ON HOW HARD AND HOW CLEVERLY THE GOJ IS

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PASS AGRICULTURE AND STR ELECTRONICALLY

PUSHED BY BEEF EXPORTING COUNTRIES. GOJ FOCUS SEEMS TO BE ENTIRELY ON POLITICAL CONSIDERATIONS, BOTH DOMESTIC (PRODUCERS) AND INTERNATIONAL (EXPORTERS). SO LITTLE ATTENTION IS PAID TO ECONOMICS OF PROBLEM THAT ONE COULD WONDER IF THESE ARE UNDERSTOOD AT ALL ON THE JAPANESE SIDE. ON RECENT TRIP TO OKINAWA, AGATT WAS TOLD BY RESIDENT MITI OFFICIAL THAT "NO INCREASE IN QUOTA FOR OKINAWA IS NEEDED. OKINAWAN MARKET IS OBVIOUSLY SATURATED BECAUSE OKINAWANS ARE SMUGGLING BEEF TO MAIN ISLANDS FOR SALE THERE." ONE POSITIVE DEVELOPMENT IS REPORT THAT MAF WILL ANNOUNCE SHORTLY A FIRST HALF JFY 1978 GENERAL IMPORT QUOTA OF 40,000 MT, AN INCREASE OF 5,000 MT OVER SAME PERIOD A YEAR AGO.

6. ACTION REQUESTED: EMBASSY COULD PERHAPS FIND GOOD USE FOR SOME BACKGROUND MATERIAL ON SUCCESSFUL DEFICIENCY PAYMENTS SCHEMES IN USE ELSEWHERE. WE ALSO SUGGEST APPROACH TO DR. FRED SANDERSON AT BROOKINGS INSTITUTION FOR POSSIBLE ASSISTANCE WITH BACKGROUND MATERIAL RELATED TO HIS BOOK ON JAPANESE AGRICULTURE. SHERMAN

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